

**ACCOUNTING**

**CAPITALIZATION**

**DESK GUIDE**

**VOLUME ONE**

Chapters 1 – 6

Federal Aviation Administration

# ACCOUNTING CAPITALIZATION DESK GUIDE

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## PREFACE

This guide describes the many procedures required to properly record and track the FAA's capital assets. This desk guide was written to provide an easy-to-use resource to assist accounting and others working with NAS F&E from project inception, and all the intermediate processes, through the final recording of the asset in the accounting records and reporting on the FAA's financial statements.

Guidance is taken from the Federal Aviation Administration Accounting Order (2700.31), with updated changes to include recent pronouncements of the Federal Accounting Standards Board (FASAB) and requirements under the Chief Financial Officers act of 1990.

This guide is designed to provide guidance to resolve accounting issues related to the capitalization of F&E project costs, to support the financial records, and to reconcile the accounting records to the subsidiaries. These procedures are intended to support the audit of the FAA's financial statements. It is being published in a series of four small desk volumes to keep the information current and easily accessible. As the accounting system changes, updates will be published.

Direct any questions relating to information in this guide to Norma Tollman, System Development Branch, AFM-320 at (202) 267-9004.

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Acting Director of Financial  
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# **CHAPTER 1**

## **GENERAL**

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## GENERAL

### CHAPTER 1

1. **PURPOSE.** This guide provides FAA personnel with guidance information on the capitalization and proper accounting for property, plant, and equipment (PP&E) in accordance with the latest Federal Financial Accounting Standards.
2. **DISTRIBUTION.** This guide is distributed to the branch level in the Office of Financial Management; to the branch level in regional and center accounting offices; and to all lines of business.
3. **BACKGROUND.** The Chief Financial Officers Act of 1990 requires Federal agencies to develop annual financial statements and to have these statements audited. The Act intends to improve financial accountability and reporting for the Federal agencies. The Federal Accounting Standards Board (FASAB) issued Statement of Federal Financial Accounting Standards No. 6 in June 1996 to provide accounting standards for Federally owned PP&E. This statement calls for general PP&E to be recognized as an asset on the Federal entity's Statement of Financial Position, and to be charged to expense through depreciation over the expected life of the asset.

4. **GENERAL.**

- a. **FAA Property.**

1. FAA property is located throughout the United States, its territories and possessions, Europe, and Asia. The FAA Depot, located in Oklahoma City, Oklahoma, is the hub of FAA property system for centralized acquisition, receiving, storage, and shipping of supplies necessary for operation and maintenance of the system of air navigation and air traffic control facilities and spare parts for FAA aircraft. The depot also serves as a storage and shipping point for materiel for new projects that are centrally funded by the agency.

## GENERAL

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2. Although Inventory facilities are maintained at the FAA Technical Center in support of research and development efforts, the FAA Depot also supports research efforts from items carried in the Depot inventory.

b. FAA Inventories.

1. Aircraft engines and other aircraft parts are used in connection with major overhaul of aircraft at the Aeronautical Center, and other equipment and supplies are procured from commercial sources and warehoused at the Depot. Also, the Depot consolidates requisitions for various types of materiel for direct shipment to users from the General Services Administration (GSA) or Defense Supply Agency (DSA). The FAA Depot stocks FAA forms, which are directly requisitioned and shipped to user activities. The FAA Depot operates Repair and Return (R&R) and Exchange and Return (E&R) services as a part of its property function. FAA aircraft maintenance bases maintain hangar inventories used with “light” maintenance of FAA aircraft, installed avionics, and supporting equipment. They are generally requisitioned from the FAA Depot. The Airway Facilities sectors maintain shelf stocks of materiel needed for routine maintenance and repair of air traffic control and navigation facilities.

The FAA Depot serves as the principal source of these supplies. The FAA Logistic Inventory System (LIS) uses the perpetual inventory methodology to keep accounting records and inventories in balance.

c. Capital Assets. FAA capital assets include land, buildings, other structures, leasehold improvements, administrative and facility equipment, aircraft fleet (maintained for research, test and inspection of facilities and procedures), experimental equipment (used for research and development), miscellaneous equipment (such as special purpose vehicles), and marine equipment.

**5. ACQUISITION AND FUNDING PRACTICES.** Funding and accounting for materiel are based on the following concepts:

a. Project Materiel. Requests for materiel used for constructing, equipping, or modifying air traffic control and air navigation facilities are initiated by project authorizations issued by the Washington office.

National Project Materiel Lists (NPML's) are prepared by central program managers for major items. The contracts are funded by Washington and the materiel is shipped by the vendor directly to the project location. Financial accountability is transferred by FAA Form 2700-45, Interoffice Transfer Voucher (IOTV). Project materiel is also obtained from inventory at the FAA Depot. Project materiel on NPML's is charged directly to Work-In-Progress when it is received. Region Project Materiel Lists (RPML's) are prepared by region project managers for common use materiel that is funded and procured locally or for projects initiated in the region.

b. Operating Materiel. Expendable operating materiel required for maintenance or air traffic control and air navigation facilities is requisitioned by the field from the FAA Depot as nonreimbursable issues from Depot inventory. It is normally charged to expense upon receipt of the IOTV document.

c. Hangar Inventories. Hangar inventories are maintained at aircraft maintenance bases located throughout the FAA. These inventories are replenished from the FAA Depot inventory. These inventories are used for aircraft maintenance, installed avionics and supporting equipment.

d. General Services Administration (GSA). Requisitions for GSA materiel, other than administrative equipment, are forwarded to the FAA Depot by field activities. If the items cannot be furnished from stock, the FAA Depot prepares FEDSTRIP requisitions and forwards them to the applicable GSA Depot for direct shipment to the FAA field

## **GENERAL**

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activity. The GSA SIBAC billings are submitted to the Aeronautical Center.

e. Administrative Supplies and Equipment. Region and area offices prepare and forward FEDSTRIP requisitions directly to the GSA Depot for administrative supplies and equipment. The related GSA billings are submitted directly to the region's accounting offices. Other field activities acquire administrative supply support from the FAA Depot. Items authorized for local purchases are procured from local vendors.

f. William J. Hughes Technical Center. Storage facilities maintained at the William J. Hughes Technical Center support the research and development (R&D) efforts. Materiel is acquired by (1) requisitioning the FAA Depot for items carried in Depot inventory and (2) local procurement. Materiel held in storage accounts is supported by detail stock records. Materiel issued for use is carried in general ledger inventory accounts supported by detail stock records. Materiel issued to R&D projects is normally expensed. Materiel issued for the purpose of the construction of a new facility or building would be captured as Work-In-Process and capitalized upon completion or occupancy. Equipment used for normal in-house activities is carried in equipment-in-use general ledger accounts supported by the Personal Property In-Use Management Systems (PPIMS) files.

g. Exchange and Repair (E&R). This title is a logistics designation for a repairable item of facility equipment. When it is unserviceable, it is returned to the FAA Depot for exchange of a serviceable item. An adjustment is made to the accounting record for changes in the subsidiary record.

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# **CHAPTER 2**

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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# CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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## CHAPTER 2

1. **PURPOSE.** To establish accounting guidance for the proper identification, classification, and accounting treatment of lifecycle costs for FAA Property, Plant, and Equipment (PP&E). As used herein, PP&E includes real property (land, buildings, and other structures) and personal property (installed facilities equipment, line item accountables, aircraft and aircraft engines, administrative information systems, and equipment furnished to others or Government Furnished Property (GFP) and Contractor Acquired Property (CAP)).
2. **CRITERIA.** PP&E placed in service having an estimated service life of at least two years and a unit cost of \$25,000 or more is a capital asset that should be capitalized at its historical cost. A capitalizable PP&E item must be reasonably identifiable as an individual item and retain this identity through its expected life. PP&E should be intended to be used or available for use by the FAA and should not be intended for sale in the ordinary course of business. The costs of capitalized assets should be allocated to the periods expected to benefit from the asset through the process of depreciation, (see Depreciation in this guide, Chapters 4 and 6). Depreciation is matching the cost of an asset to the benefit received from its use. The basic accounting principle of matching requires the resources (expenses) be matched to the period of use or accomplishment (benefits) wherever it is reasonable and practical (Kieso & Weygandt, 9th edition).
3. **SCOPE.** This PP&E capitalization guidance applies FAA-wide for assets at Headquarters, centers, and regions. It prescribes the practices to be followed to provide adequate financial accountability for PP&E such as real property and personal property. In addition to this general capitalization guide for PP&E, the FAA has also established supplemental accounting guidance and procedures pertaining to the specific types of assets listed below. PP&E is distinct from spare parts

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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and supplies, also known as operating materials and supplies (OM&S). Statement of Federal Financial Accounting Standards (SFFAS) #3 defines OM&S as “tangible personal property to be consumed in normal operations”. See Chapter 12 entitled “Spare Parts Procured through Headquarters Contracts” of subsequent guide Volume 2, for accounting procedures for spare parts.

### **4. AUTHORITY.**

a. The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6 – Accounting for Property, Plant and Equipment (PP&E) issued in June 1996.

b. FASAB’s Statement of Recommended Accounting Standards #10, entitled “Accounting for Internal Use Software”, issued June 1998.

### **5. DEFINITIONS.**

a. Capitalization. The term capitalization means determining the dollar value of the real and personal property recorded as a capital asset. These asset values include costs incurred in engineering, site selection, construction, contract monitoring, and installation, less expenses incurred in demolition, restoration, etc.

b. Principles of Capitalization. Expenditures related to the acquisition, modification, or improvement of property are capitalized when they result in a significant increase in usefulness, service life, productivity, capacity, or monetary value of a facility or property. Expenses are all other costs or expenditures incurred which do not result in any of the above.

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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c. Real Property. Land, buildings, and other structures are considered real property. Also included are FAA-owned improvements on real estate, such as airway facilities, roads, bridges, culverts, guard rails, power distribution systems, sidewalks, parking areas, and fencing.

d. Personal Property. The following are the categories of personal property used in the capitalization of F&E and non-F&E projects:

1. Facility Equipment is electronic, electrical, or mechanical equipment, including test equipment installed at air navigation or traffic control facilities, and portable test equipment authorized in support of equipment installed which meet capitalization criteria.

2. Administrative property includes office furniture and equipment that is recorded by national stock number or item code and controlled by group or class. Other categories of administrative property are motor vehicles, printing, photographic, medical, protective clothing, and survival equipment.

3. Other equipment is all other in-use equipment not otherwise classified. This includes off-road and special purpose vehicles, marine equipment, shop, commissary, mess, and domestic service equipment.

4. Facility equipment installation charges are associated with the installation of personal property in a facility. They are not distributed to each item of personal property installed but are collected and reported as a single line item amount covering the cost of installing all items of personal property in use in a single facility location. Installation charges include direct labor, travel, other costs, and overhead associated with an asset or facility equipment.

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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e. Expense. Project costs which do not contribute to the facility or property usefulness, capacity, productivity, service life, or monetary value, are expensed. All items in the construction of the facility are capitalized. The unit-value criterion is not used to delete components at the time of capitalization. Other types of costs are expensed, even if project funds are used to fund. Examples include maintenance cost, hazardous material, etc..

### **6. CLASSIFICATION.**

a. Capital Costs. Costs to acquire a capital asset or to add to the value of an existing capital asset should be classified as capital costs. Capital costs to acquire a capital asset include the acquisition cost and all additional costs incurred to bring the asset to a form and location suitable for its intended use. Costs that add to the value of existing assets would include costs which: (1) increase the estimated service life of the asset, (2) increase the capacity of the asset, or (3) improve the performance of the asset. The costs of such capitalized assets should be allocated to the periods expected to benefit from the asset through the process of depreciation.

b. Expense. In general, expense all costs that do not meet the requirements for capitalization and charge them to the accounting period in which the costs were incurred.

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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*EXAMPLE: The FAA incurs the following costs in connection with a large leading edge project :*

	<u>FY-98</u>	<u>FY-99</u>	<u>FY-00</u>	
<u>Equipment FY-98</u> (Construction in progress)	\$150,000			Work-In-Process 15GX
<u>Equipment FY-99</u> (Construction in progress)		\$150,000		Work-In-Process 15GX
<u>Termination FY-00</u> Equipment is scrapped and will never be used			\$300,000	Expense, current year. Decision to abandon was not known in prior years.

**TC: 453 MAC: BB**

<i>Debit</i>		<i>Credit</i>
61AX	\$600,000	
		15GX \$600.000

*Remember, the rule is to match the resources with the benefit. In this case, the first two years have Work-In-Process (fully expecting to eventually have an asset to use and recognize the benefit of that asset over its useful life). However, due to unforeseen events, the project is terminated the third year and there are no benefits to be received. That event is recorded as an expense of the year of termination – there are no prior period adjustments made.*

*Expense items that are known at the on-set should not be accumulated in Work-In-Process. As expense items are received, they should be expensed and not wait to project completion or close-out.*

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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c. Technological Feasibility Study. Expense any costs incurred in a program before its technological feasibility has been established. The costs that are incurred prior to determination of technological feasibility are typically research costs and include concept demonstration, prototyping, breadboarding, etc., to prove the operational or economic benefits and technological feasibility. Technological feasibility is established when the FAA has completed all activities necessary to establish that the acquisition project is feasible and will be constructed. Normally, for FAA NAS projects, this would occur when the Joint Resources Council approves the Investment Decision for the program. The Capital Investment Decision is clearly documented by a memorandum from the Director of Acquisition. Program costs incurred after completion of the technological feasibility study are eligible for capitalization.

d. Guidance on Classification. To aid in the classification of costs as eligible or ineligible for capitalization, the FAA has developed a desk-side reference chart titled “Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets.” This chart is contained in this chapter as Exhibit A.

**7. RELATIONSHIP BETWEEN FUNDING SOURCE AND CAPITALIZATION VERSUS EXPENSE.** The FAA uses several appropriations to procure equipment and services that form tangible PP&E. The type of appropriation used (i.e., source of funding such as Research, Engineering & Development (RE&D), Facilities & Equipment (F&E), and Operations (OPS)) is not a determinant of whether a cost is capitalized or expensed. A majority of PP&E is procured using the F&E appropriation.

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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*EXAMPLE: The FAA incurs the following costs in connection with a project :*

<i>Funding Source</i>	<i>Dollar Description</i>	<i>Value</i>	<i>Eligible for Capitalization?</i>
<i>RE&amp;D</i>	<i>Engineering Services - design radar*</i>	<i>\$150,000</i>	<i>Yes</i>
<i>Ops</i>	<i>Construction of Radar</i>	<i>200,000</i>	<i>Yes</i>
<i>F&amp;E</i>	<i>Equipment (radar dish)</i>	<i>250,000</i>	<i>Yes</i>
<i>F&amp;E</i>	<i>Spare part</i>	<i>15,000</i>	<i>No</i>
<i>Ops</i>	<i>FAA Employee Labor - inspection</i>	<i>22,000</i>	<i>Yes</i>
<i>Ops</i>	<i>FAA Employee Travel - inspection</i>	<i>15,000</i>	<i>Yes</i>
<i>Ops</i>	<i>Contractor Labor – inspection</i>	<i>12,000</i>	<i>Yes</i>
<i>Ops</i>	<i>Contractor Travel - inspection</i>	<i>10,000</i>	<i>Yes</i>
<i>Ops</i>	<i>Develop Training materials</i>	<i>24,000</i>	<i>Yes</i>
<i>Ops</i>	<i>Initial Training for staff</i>	<i>17,000</i>	<i>No</i>
<i>Ops</i>	<i>Ongoing Training after Commissioning</i>	<i>25,000</i>	<i>No</i>

*Per Exhibit A., eight items in the above example are eligible for capitalization. These include engineering services, construction, and equipment costs. These costs were incurred to bring the PP&E to a form and location suitable for its intended use. Costs associated with spares are not eligible for capitalization as PP&E, but are accounted for in the LIS System, either in the Field Spares Inventory module (if they are destined for the field), or in the LIS depot inventory record (for spares destined for the depot). The training and travel costs (incurred either by F&E personnel or*

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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*contractors) in connection with installation and testing of new equipment are also eligible for capitalization. Expense training services (both initial and ongoing) as a cost of operations; do not accumulate these in the WIP account. Note: The funding source (column 1) does not influence whether the costs are eligible for capitalization.*

*\* Design costs in this example were incurred after technological feasibility of the project had been determined. See Section 6c., "Classification - Technical Feasibility Study," for clarification of this topic.*

### **8. FIRST ARTICLES AND PROTOTYPES.**

a. Costs Incurred for First Articles and Prototypes. A first article or prototype represents the first unit constructed for a system. Its costs may be higher than for subsequent units because production efficiencies have not yet been realized.

b. Expense any costs incurred on a first article or prototype before technological feasibility has been established. After technological feasibility is established, the subsequent costs of constructing and installing a first article are eligible for capitalization and depreciation.

c. If the first article is placed in service at a site, then depreciate it over its estimated service life at that site.

d. Some first articles or prototypes are not intended to be placed in operational service. Instead they are intended to be used solely for the purposes of testing (both initial testing and recurring testing throughout the service life). Such an item may be kept at the contractor's facility, or may be located at an FAA Center, or even installed in a region. If the first article is to be used strictly for testing purposes, then capitalize and depreciate it over the estimated service life of the entire program. This treatment is parallel to common project costs.



## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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e. If a system is destroyed during testing, then write the asset off at that time. The costs incurred for the production of a first article may be higher than those incurred for later production units of the same or similar type. However, these actual costs become the true historical costs of placing that unit in service and therefore are capitalized as that unit's historical cost. The additional cost of a first article should not be spread over other units or otherwise allocated.

### **9. CLEANUP AND DECOMMISSIONING COSTS.**

a. Cleanup – Existing FAA Properties. SFFAS #6 provides two methods of accounting for cleanup costs. Option 1 is required if the agency intends to obtain its resources primarily through the collection of user fees. FAA has chosen to utilize Option 2, to recognize the cleanup cost of an in-use asset as a current expense. For financial statement purposes, the cleanup costs will be recognized the fiscal year of the cleanup. Do not capitalize or depreciate cleanup costs.

b. Decommissioning – Existing FAA Properties. FAA has chosen to utilize SFFAS #6 Option 2 to recognize as current expense the cost of decommissioning an asset that was in-use but is being taken out of service. For financial statement purposes, the decommissioning costs will be recognized as an expense of the fiscal year that the asset is taken out of service. Decommissioning costs are not capitalized as a cost of placing any replacement system in service since they do not add any value to the replacement system.

c. Cleanup, Decommissioning, or Environmental Cost will be amortized under SFFAS #6 Option 1 if these costs become material. Alternatively, if user fees become the primary funding source of the agency; and if these costs become material to the calculation of those fees, FAA will convert to SFFAS #6 Option 1.

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### **d. Cleanup Costs – New Properties.**

1. When the FAA acquires new property, it may remove an existing structure on that property in order to ready the property for the FAA's purpose. In that situation, the cost of removing the existing structure is considered a site preparation cost, eligible for capitalization.

2. The FAA also may incur cleanup costs in the context of developing a new property that it has not previously occupied. In such an instance, the FAA has not recognized any previous liability. Cleanup costs incurred in connection with bringing such a property to a form and location suitable for its intended use; therefore, they are eligible for capitalization, along with the other site development costs.

**10. TECHNOLOGY REFRESHMENT.** This refers to an NAS strategy in which major components of a NAS system (personal property) are periodically replaced during the system's service life with new Commercial Off The Shelf (COTS) components to assure continued supportability. The accounting treatment of technology refreshment depends upon the manner in which the original asset was recorded in the detail property records:

a. If the original asset was recorded in the detail property records on a component basis (line item accountable – see this guide Chapter 5 – Section 3, when that component is replaced, remove it from the detail property records (with associated adjustments to book value and accumulated depreciation). Record the replacement component as a new detail property record, and capitalize it if it meets the capitalization criteria, and then (if capitalized) depreciate it over its expected service life.

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b. If the original asset was recorded in the detail property records as part of the entire system, and not specifically posted as a separate record, then a determination must be made whether the replacement component increases the capacity or extends the service life of the system (two or more years). If the new component does not add functionality or extend the service life of the overall system, then expense it as a maintenance cost.

c. If the replacement component does increase the capacity and/or extend the service life of the system, then evaluate the cost of the replacement component to determine if it meets the capitalization criteria (if the component exceeds \$25,000 and has more than two years expected service life). Post the new component as a separate detail property record, and if it is eligible for capitalization, capitalize and depreciate it over its expected service life. Do not modify the service life of the original asset. Capitalization of the component does not depend on the value of the original system.

### **11. FAA GENERAL RULE FOR CAPITALIZING COSTS.**

Record all capital assets at historical cost. Capitalized cost shall include all costs incurred to bring the asset to a form and location suitable for its intended use. For an asset (other than land) to be considered a “capital asset” it should have an estimated useful life of at least two years and have a “unit” cost of \$25,000 or greater. Capitalize the costs of all land or land rights (easements) on the financial records of the FAA.

a. Advance payments and prepayments are payments made to contractors before completion of the related task or delivery of the item. Record these payments as prepaid assets. Reduce the prepaid assets and increase the corresponding F&E capitalization account when work is performed or services delivered. Charge progress payments based on a percentage of contract completion to a progress payment account.

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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When the deliverable item is completed, reverse the progress payment and charge the total invoice cost to WIP. Accounting guidance for this is provided in this guide, Volume 2, Chapter 8, entitled “Progress Payments”.

b. Expense any costs incurred for a project before technological feasibility has been determined (e.g., research and development costs). Labor costs can be incurred on a construction project from FAA Headquarters, region, center offices, or contractor sources. Where practical, allocate these labor costs to the appropriate project JONs. However current system limitations preclude the Headquarters and regions from identifying and allocating many of these labor costs. When this is the case, such costs should be expensed.

c. Spares, including Exchange & Repair (E&R) items and consumables, are not capitalized with the F&E project nor are they expensed at the time of procurement. Spares are accounted for in a property system as Operating Materiel & Supplies (OM&S); they are recorded in both a property system and the financial records. Expense consumable spares at the time of consumption. Accounting guidance for this is provided in this guide, Volume 2, Chapter 12, entitled “Spare Parts Procured through Headquarters Contracts”.

d. Consider software embedded in a system to be a part of the project’s total cost. Other software costs (both internally and externally incurred) which are procured independently of the hardware on which it is resident may be capitalizable costs. Examples of capitalizable costs are the costs to purchase or develop the software including design, coding, testing, installation, and any enhancements to existing software that result in significant additional capabilities of the software. Examples of software costs that are not eligible for capitalization include evaluation

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of alternatives, data conversion costs, costs incurred after final acceptance, software maintenance, or enhancements that merely correct a design flaw or extend the useful life of the software. Refer to this guide, Volume 3 Chapter 15, Software Capitalization, for a detailed discussion.

e. **Hazardous Material/OSHA**

1. For JONs that do not include equipment or materiel, expense all costs. In the future, expense costs as they are incurred. This is done by using “”(blank blank) MAC code and “000” CAF code.

2. For JONs including expenditures for new equipment or materials, follow standard procedures for tracking materiel in RPMMS and closing out into corresponding property account if property meets accountability thresholds. Otherwise, expense.

f. Accounting guidance for this will be provided under subsequent Volume 4 of this guide, Chapter 23, entitled “Accounting for Clean-Up Costs”.

g. Warranty Cost. If the FAA purchases an extended warranty for an item, it is expensed when the invoice is paid.

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## **EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET**

1	Additions to Existing Assets (extends capacity/service life), e.g., roof, HVAC	Capitalize
2	Administrative Costs (direct) of developing and fielding a system (either FAA or contractor incurred) (after technological feasibility has been proven)	Capitalize
3	Advance Payments	(See note 1)
4	Architecture & Engineering Costs (Rendering, Soil Testing, Drawings)	Capitalize
5	Building Costs (FAA owned) - original costs and major improvements (e.g., purchase price, survey, drawings, installation, preparation work). Includes attached fixtures-lighting/air conditioning.	Capitalize
6	Calibration of Equipment:	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense
7	Configuration Management (after technological feasibility has been proven)	Capitalize
8	Contractor Logistics Support, Contractor Depot Logistics Support (after project completion)	Expense
9	Damage Claims (incurred prior to project completion)	Capitalize

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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### EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)

10	Decommissioning Costs (clean-up, site restoration, Environmental Due Diligence Act)	(See note 2)
11	Deployment Readiness Review (In Service Decision)	Capitalize
12	Design (System & Eng.) Costs - hardware/software, Failure Mode Criticality Analysis, Maintainability/reliability program and demonstration costs	
	a) before feasibility has been determined	Expense
	b) after feasibility has been determined	Capitalize
13	Design Reviews (e.g., Formal Qualification Reviews, preliminary and critical design reviews)	
	a) before feasibility has been determined	Expense
	b) after feasibility has been determined	Capitalize
14	Documentation (System) Costs - incurred prior to project completion (e.g., user guides, manuals)	Capitalize
15	Easements (land rights)	Capitalize
16	Engineering Costs (see also Design Costs)	Capitalize
17	Environmental Impact (New Construction)	Capitalize
18	Environmental Remediation Costs - (FAA owned property):	
	a) Underground Storage Tanks and Asbestos Removal	(See note 3)

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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### EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)

b)	Soil Removal and Restoration	
	- as part of new facility construction	(See note 4)
	- as part of cleanup following decommissioning	(See note 2)
19	Equipment Costs (FAA owned) initial cost and major improvements - e.g., radars, ILS receivers	Capitalize
20	Failure Mode Criticality Analysis - see Design Costs	
21	First Articles and Prototypes	(See note 5)
22	Furniture (initial purchase for project as part of system/administrative workstations)	Capitalize
23	Handling and Storage Costs	Capitalize
24	Incentive Fees to Contractors (to reward performance goals)	Capitalize
25	Labor Costs During Construction	(See note 6)
	a) TSSC (Technical Support Services Contract)	Capitalize
	b) LSSC (Logistics Support Services Contract)	Expense
	c) Region F&E personnel (e.g., Activity 5 funds)	Capitalize
	d) HQ Program Mgmt Office and IPTs	(See note 6)
	e) HQ Contractor Support to Program Offices (System Eng. and Tech. Assistance-SETA)	Capitalize



## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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### EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)

26	Land Acquisition Costs - e.g., survey, title services, appraisals, fees, razing existing structures acquired from others, Environmental Due Diligence (EDDA) (for purchased or leased site), purchase price	Capitalize
27	Legal Fees - incurred to bring project to its intended use (e.g., title/recording costs)	Capitalize
28	Lease Payments for Land and Property, Plant & Equipment (PP&E)	
	a) Capital Lease	Capitalize
	b) Operating Lease	Expense
	(If lease qualifies as a capital lease, contact AFM-210)	
29	Leasehold Improvements (e.g., major renovations, relocate walls, rewire buildings)	Capitalize
30	Legal Fees - External (incurred to bring project to its intended use)	Capitalize
31	Material Costs	
	a) Contractor Acquired Property (CAP)	Capitalize
	b) Other contractor provided project material	Capitalize
32	Maintenance and Repair Costs (see also Contractor Logistics Support)	Expense
33	Modifications to systems or equipment (e.g., upgrades, equipment "leapfrog" mods)	Capitalize

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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### **EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)**

34	National Airspace Integrated Logistics Support (NAILS)	
a)	costs incurred during the construction/acquisition phase	Capitalize
b)	costs incurred during the operating phase	Expense
35	Operating Materials & Supplies	(See note 7)
36	Other Structures - FAA owned (Original Cost and Major Improvement) e.g., Airfield Systems, Airport Runways, Aprons, Taxi Lighting	Capitalize
37	Packaging, Postage and Packing (contractor's costs)	
a)	costs incurred prior to project completion	Capitalize
b)	costs incurred after project completion	Expense
38	Penalties (e.g., fees charged for late payments, etc.)	Expense
39	Prepayments	(See note 1)
40	Production Readiness Review	Capitalize
41	Progress Payments	(See note 1)
42	Project Management Costs - baseline and contractor administration	Capitalize
43	Prototypes	(See note 5)
44	Real Estate Costs (incurred to place the project into operation, see also Land Acquisition Costs)	Capitalize

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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### **EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)**

45	Renovation Costs - See Buildings, Equipment and Other Structures and Leasehold Improvements	Capitalize
46	Rental Costs	
	a) equipment/storage space (prior to project completion)	Capitalize
	b) equipment/storage space (after project completion)	Expense
47	Repair Costs - Emergency Repairs, Routine Repairs	Expense
48	Research and Development Costs (see also Note 2)	Expense
49	Service Costs (incurred after project completion)	Expense
50	Shipping Costs for new systems (including Handling and Storage)	
	a) to point of intended use	Capitalize
	b) after point of intended use	Expense
51	Site Construction Costs (see also Land Acquisition Costs)	Capitalize
52	Site Selection Costs (e.g., legal, survey, design, studies)	
	a) if site was selected for lease or purchase	Capitalize
	b) if site was not selected for lease or purchase	Expense

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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### **EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)**

53	Software Costs (internally and externally produced, embedded)	(See note 8)
54	Spares	
	a) component of system, hot wired	Capitalize
	b) other spares (e.g., depot spares, peculiar spares, site spares)	(See note 7)
55	Special Tools and Test Equipment Hardware	Capitalize
56	System/Subsystem Integrity Check Demonstration	Capitalize
57	System Tests (e.g., Fail Safe Demonstration, Interface Test, Operational Test and Eval.)	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense
58	Technical Manuals	Capitalize
59	Technology Refreshment of COTS components (includes Product Improvements or Upgrades)	(See note 9)
60	Technical Support Services	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense
61	Telecommunications	
	a) Initial	Capitalize
	b) Service	Expense
62	Test Equipment (procured as component of system)	Capitalize

## CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT

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### EXHIBIT A. FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSET (continued)

63	Test Readiness Review	Capitalize
64	Training Courses & Devices – Development and/or construction (system specific)	Capitalize
65	Training Courses - Execution and delivery of training and support services	Expense
66	Travel	
	a) in support of a NAS development project	Capitalize
	b) not in support of a NAS development project	Expense
67	TSSC Materiel	Capitalize
68	Utilities	
	a) to bring project to its intended use, e.g., installation, site preparation, etc.	Capitalize
	b) after project completion	Expense
69	Warranties – extended	(See note 10)

**Note 1.** Advance payments and prepayments are payments made to contractors before the completion of the related task or delivery of the item, and are often based on a percentage of contract completion to a progress payment account. Record these payments as prepaid assets (progress payments account).

**Note 2.** Do not capitalize such cleanup costs. At the time an asset is placed in service (commissioned), estimate what cleanup costs will be

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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incurred in connection with its subsequent decommissioning. Then allocate that estimated total cleanup cost proportionately over the service life of the asset, with a portion of it recognized as expense (and accrued for as liability) during each service year. Such accrual does not impact the asset's gross value or depreciation, but instead accumulates it as an accumulated liability account.

**Note 3.** For hazardous materials projects that cleanup existing facilities and do not include equipment \$25,000 or greater, expense all costs as they are incurred. If new equipment is acquired to address environmental concerns (such as scrubbers or filtration devices), account for such equipment as a new capital asset if it meets accountability thresholds. Otherwise expense the equipment.

**Note 4.** Cleanup costs may be incurred in connection with bringing a property to a form and location suitable for its intended use; therefore they are eligible for capitalization, along with other site development costs.

**Note 5.** Expense any costs incurred on a first article or prototype before technological feasibility has been established. After technological feasibility is established, the subsequent costs of constructing and installing a first article are eligible for capitalization and depreciation. If the first article is placed in service at a site, depreciate it over its estimated service life at that site. If not intended to be placed in operational service, but to be used solely for testing, capitalize and depreciate it over the estimated service life of the entire program (treatment parallel to common project costs). If the system is destroyed during testing, write off the asset at that time.

**Note 6.** Allocate labor costs (whether from FAA Headquarters, regional offices or contractors sources). However, with current system

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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limitations, headquarters labor costs cannot be capitalized and should be expensed.

**Note 7.** Spares are accounted for as Operating Materiel and Supplies (OM&S). They are not capitalized with the F&E project, nor are they expensed at the time of procurement, but at the time of project closeout.

**Note 8.** Consider software embedded in a system to be a part of the project's total cost. Other software costs (both internally and externally incurred) which are procured independently of the hardware on which it is resident, may be capitalizable cost. Examples of capitalizable costs are the costs to purchase or develop the software including design, coding, testing, installation, and any enhancements to existing software that result in significant additional capabilities of the software. Examples of software costs that are not eligible for capitalization include evaluation of alternatives, data conversion costs, costs incurred after final acceptance, software maintenance or enhancements that merely correct a design flaw or extend the useful life of the software.

**Note 9.** If the original asset was recorded as line-item accountable, delete the old record and record the replacement component as a new detail property record and capitalize it if it meets the capitalization criteria. If the original asset was recorded as a system, determine whether the replacement component increases the capacity or extends the service life of the asset. If it does, capitalize it as an improvement if it meets the capitalization criteria; if it does not, expense it.

**Note 10.** If FAA purchases an extended warranty, record it as an expense at the time the invoice is paid.

## **CAPITALIZATION POLICY AND CRITERIA FOR PROPERTY, PLANT AND EQUIPMENT**

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## **CHAPTER 3**

# **REAL PROPERTY CAPITALIZATION**

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# REAL PROPERTY CAPITALIZATION

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## CHAPTER 3

**1. PURPOSE.** To establish accounting guidance for the proper identification and accounting treatment of real property. Real property includes land, buildings, other structures, and easements.

**2. LAND CAPITALIZATION CRITERIA.**

a. Land Costs represent acquisition cost, plus such items of cost as those listed below which are incidental to the acquisition and preparation of the land for use. See Chapter 2, Exhibit A, “Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets,” for a comprehensive list of costs eligible for capitalization. An easement provides limited land rights, which may or may not have monetary value. In addition, the term of an easement may be indefinite or it may have a stated term.

1. Contract purchase price of the land itself
2. Any external legal fees for activities such as title search costs or closing costs (services not performed by FAA employees)
3. Title insurance costs
4. Condemnation costs (including settlement costs)
5. Plots, survey and appraisal fees
6. Costs incurred due to an Environmental Due Diligence Audit (EDDA)
7. Removal of structures or facilities purchased but not used (less credit for salvaged materiel) (see also Chapter 2, section 9d - “Cleanup Costs - New Properties”)
8. Broker fees and commissions

## REAL PROPERTY CAPITALIZATION

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b. Unit of Capitalization. All land and land rights should be recorded in the FAA's detailed real property system, to establish control and accountability over such items. In addition, capitalize the costs of all land or land rights (easements) on the financial records of the FAA, regardless of whether these costs meet the \$25,000 cost or (for a limited term easement) the two year service life thresholds. For example, the FAA incurred the following costs to acquire land lot #1:

<i>Land</i>	<i>\$10,000</i>
<i>Title fees</i>	<i>\$ 5,000</i>
<i>Appraisal fees</i>	<i>\$ 7,500</i>
<i>Total Costs</i>	<i>\$22,500</i>

*Land will be recorded in the detailed real property system. In addition, it will be capitalized and recorded in the financial accounting system (DAFIS) at this amount:*

<i>DAFIS General Ledger Account # 17AX Land</i>	<i>\$22,500</i>
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1. Timing of Capitalization. Capitalize costs for land or land rights when title is acquired, and record it in both DAFIS and the real property system. Capitalize any additional costs for land incurred after title is acquired, during final capitalization, and record it in both DAFIS and the real property system.

2. Depreciation. Land is a unique asset and is not subject to depreciation because it has an unlimited life. Generally, land rights are also structured to have an indefinite life and would therefore be ineligible for depreciation or amortization.

c. Easement. If an easement has a limited term and has a cost basis greater than \$25,000, then its cost basis should be amortized over the term of the land right.

### 3. **BUILDING COST CAPITALIZATION CRITERIA**

a. Owned Buildings. This unit includes the costs of Government-owned buildings under FAA control. This category also includes capital improvements incurred after the date of acquisition. All costs incurred to construct the building and to prepare the building for its intended use are eligible for capitalization. Examples of these types of costs are:

1. Design and engineering costs.
2. Fixtures and equipment that are normally required for functional use of the building; either built into the structure or otherwise permanently affixed. The removal of these fixtures would materially damage the building. Examples are: heating and lighting fixtures, elevators, air conditioning systems, built-in safes, vaults, partitions, and plumbing.
3. Fixtures and equipment installed outside the building(s) that support one of the systems necessary for the primary function of that building only. This includes fuel tanks for heating systems, compressors for air conditioning systems, and water tanks.
4. All additions, annex, lean-to, attached shed, garage, underground room, or any modification that becomes an integral part of a building after original construction or acquisition. This would include an underground equipment room for a tower, a lean-to attached to a hangar, etc.
5. Built-in cabinets, storage bins, safes, vaults, etc. This would include kitchen cabinets in living quarters.
6. Initial site preparation costs, including clearing, grading and drainage costs, and landscaping.

## REAL PROPERTY CAPITALIZATION

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Facilities without at least one full-time working employee should be classified as an Other Structure rather than as a Building. See this guide Chapter2, Exhibit A, “Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets,” for a comprehensive list of costs eligible for capitalization.

b. Unit of Capitalization.

1. Capitalize building costs eligible for capitalization (as discussed above) if the total of this type of cost for a project meets or exceeds \$25,000, and the building has an expected service life of two years or greater. Each building should be treated as a separate record for capitalization considerations.

2. The decision as to whether building costs are to be capitalized or expensed is made at the project level for all costs incurred for the construction of a building, rather than at the individual invoice or charge level. The Resource Tracking Program (RTP) tracks projects at the Job Control Number (JCN) level, which will equate with one or more Job Order Numbers (JONs) from the DAFIS Job Order Costing module. The unit of capitalization to determine the \$25,000 threshold is that building’s entire cost, which may have been accumulated under more than one JON.

*EXAMPLE 1: The FAA incurred the following costs for the construction of a building:*

*JON 34435*

<i>Build Construction Contract</i>	<i>\$280,000</i>
<i>Labor</i>	<i>\$100,000</i>
<i>Fixtures &amp; Equipment</i>	<i><u>\$ 55,000</u></i>
<i>Total JON 34435:</i>	<i>\$435,000</i>

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## REAL PROPERTY CAPITALIZATION

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*JON 45882*

<i>Labor</i>	<i>\$ 15,000</i>
<i>Built-in cabinets</i>	<i><u>\$ 5,000</u></i>
<i>Total JON 45882:</i>	<i>\$ 20,000</i>

<i>Total Project Costs</i>	<i>\$455,000</i>
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*The total building costs of \$455,000 exceeds the \$25,000 capitalization threshold. Although one of the JONs did not exceed the capitalization threshold, the total project (including both JONs) does meet the criteria. Therefore, the building will be capitalized and recorded in the financial accounting system (DAFIS) at the full project cost:*

<i>DAFIS General Ledger Account # 17CX Building</i>	<i>\$455,000</i>
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*EXAMPLE 2: The FAA incurred the following costs for the construction of a shed:*

<i>Materials</i>	<i>\$15,000</i>
<i>Labor</i>	<i><u>\$ 4,000</u></i>
<i>Total Costs</i>	<i>\$19,000</i>

*Since the total costs of the building do not exceed the \$25,000 capitalization threshold, they will be expensed in DAFIS:*

<i>DAFIS General Ledger Account #61AA Expense</i>	<i>\$19,000</i>
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*EXAMPLE 3: The FAA establishes one project to construct 2 small buildings at a site. Costs for this project total \$47,000, divided as follows:*

<i>Building A</i>	<i>\$35,000</i>
<i>Building B</i>	<i><u>\$12,000</u></i>
<i>Total project:</i>	<i>\$47,000</i>

## REAL PROPERTY CAPITALIZATION

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*The costs for Building A exceed the capitalization threshold, so should be capitalized. However, the costs of Building B should be expensed, as they do not exceed the \$25,000 threshold:*

*DAFIS General Ledger Account # 17CX Building                      \$35,000*

*DAFIS General Ledger Account #61AA Expense                      \$12,000*

c. Timing of Capitalization. Capitalize building costs when the building is deemed either occupied or physically complete. If an occupancy permit is required, capitalize the building costs when it is issued. At that time, capitalize all eligible accumulated costs incurred to acquire or construct the building. If any additional costs are identified for the building later, after the initial capitalization, then capitalize these costs at final capitalization.

**4. IMPROVEMENTS.** Either extend the useful life of in-use fixed assets or enlarge or improve their capacity. Improvements are distinct from repairs, which are incurred to maintain the intended capacity and service life of the asset. Improvements are typically made to buildings, but may also apply to other classes of in-use fixed assets. Typical improvements occurring in the FAA include building roof upgrades, replacement of HVAC chiller systems, or repaving parking lots. Capitalize improvements if their total costs exceed the capitalization threshold and they have an expected service life of two years or greater. See Depreciation, useful life criteria, Chapter 4, section 4d.

Evaluate an improvement for capitalization separately from the original asset that it improves. The original cost of the asset does not affect this determination. Nor does the designation of the FAA appropriation (F&E or Operations) influence the capitalization determination (see Chapter 2, section 7 - “Relationship between Funding Source and Accounting Treatment”). A capitalizable improvement should be recorded as a



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## REAL PROPERTY CAPITALIZATION

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separate record in the detail real property system.

*EXAMPLE: The FAA incurred the following costs for a new roof on a building:*

*Cost incurred for replacement of a roof                \$24,000*

*The total costs do not meet the \$25,000 capitalization threshold. Therefore, expense these costs. Costs capitalized (or expensed) in prior years do not affect the capitalization decision. Nor does the original cost of the building have a bearing on the capitalization decision.*

### **5. OTHER STRUCTURES CAPITALIZATION CRITERIA**

a. Other Structures Costs. This unit includes the costs of structures and facilities owned by the FAA. All costs incurred to construct the structure and to prepare it for its intended use are eligible for capitalization. Other structures are any structures (other than occupied buildings) that possess characteristics of physical or operational permanence, are permanently affixed or attached to the land or a building by foundation or otherwise, and that at the time of construction are not designed to be dismantled and removed for use elsewhere. Examples are:

1. Airfield structures - including taxiway pavements, aprons, warm-up pads, turnoffs, bypasses; and dams, concrete ditching and pipes that make up the drainage system serving the airfield up to where the system discharges into another system, open water or ground.

2. Airport runway, threshold and taxiway lighting system - including installed fittings, fixtures, conduit, transformers, regulators, cable, wire, etc., up to where power and control cables enter a building.

## **REAL PROPERTY CAPITALIZATION**

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3. Roads or road components - including pavement, concrete ditching, culverts, bridges, guard rails, signs or signals, etc.
4. Visual landing aid systems - including installed lamps, steel supports, fittings, fixtures, conduit, transformers, junction boxes, substations, cable wire, etc., up to where power and control cables enter a building.
5. Antenna components – including towers, poles, counterpoises, supports, insulators, wire, waveguide lead-in cable (up to where waveguide cable or wiring enters a building).
6. Fuel and water distribution components serving more than one building or activity - including storage tanks, pipes, valves, reservoirs, etc., up to where the service enters a building. (Note: if such a system served only one building, then it would be capitalized as part of the cost of that building, rather than separately as an Other Structure or System).
7. Fire protection system, serving more than one building, including storage tanks, pipelines, pumps, valves, fittings, hydrants, alarm systems, etc., up to where the service exits from or enters a building. Power generation or distribution system serving a building or structure, including poles, towers, cables, wire, transformers, protective devices, insulators, etc. (but excluding engine generators and uninterruptible power systems, which would be considered personal property, Installed Facilities Equipment) up to where the service exits or enters a building.
8. Sewage disposal components – including drains, pipelines, treatment tanks, outfalls, etc., from the building outward.
9. Communications systems - including cable, lines, poles, towers, fittings, insulators, etc., up to where lines or cable exit or enter a building or is connected to a commercial service.

## REAL PROPERTY CAPITALIZATION

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10. Communications structures installed on land - including towers, cable, wire, up to where the wiring or cable enters a building. Tramways, marine railways, piers and wharves – including electrical and mechanical devices, such as cranes, winches, motor capstans, etc., used in their operation. Small buildings attached to wharves, piers, tramway etc., primarily housing associated operating equipment are also considered part of the structure.

11. Paved parking areas – including electric lines, lighting, connections, outlets, etc., from the power source or meter connection.

12. Sidewalks that are a part of a system serving more than one building or activity.

13. Fencing – including gates and fittings built as one integral unit.

14. Initial landscaping, including clearing, grading, and drainage costs, incurred in connection with the construction of an Other Structure.

Facilities without at least one full-time working employee should be classified as an Other Structure rather than as a Building. See Chapter 2, Exhibit A, “Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets,” for a comprehensive list of costs eligible for capitalization.

b. Unit of Capitalization. Capitalize eligible costs as Other Structures (as discussed above) if the total of this type of cost for an asset meets or exceeds the \$25,000 threshold and if the asset has an expected service life of two years or greater.

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## REAL PROPERTY CAPITALIZATION

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The decision as to whether to capitalize or expense costs is made based on all the costs that go in to creating an asset, regardless of whether those costs are incurred under one or many JONs,

not at the individual invoice or charge level. Resource Tracking Program (RTP) tracks projects at the JCN level, which will equate with one or more JONs from the DAFIS Job Order Costing module. Partial capitalization of one or more JONs can be done to transfer most of the costs to an in-use asset on a timely basis if the asset is considered physically complete or in-service.

***EXAMPLE:** The FAA incurred the following costs in connection with the construction of a new remote communications outlet (RCO):*

<i>Tower – material costs</i>	<i>\$300,000</i>
<i>Tower – installation labor costs</i>	<i>\$150,000</i>
<i>Building</i>	<i>\$ 40,000</i>
<i>Fencing around perimeter of property - material costs</i>	<i>\$ 15,000</i>
<i>Fencing around perimeter of property - installation costs</i>	<i>\$ 12,000</i>
<i>ABC Construction Company: Access road to site</i>	<i>\$ 20,000</i>
<i>ABC Construction Company: Construct drainage system</i>	<i>\$ 34,000</i>
<i>Total JON:</i>	<i>\$571,000</i>

*In this example, the building cost (\$40,000) would be capitalized as a separate record - a building:*

<i>DAFIS General Ledger Account # 17CX Building</i>	<i>\$ 40,000</i>
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*The project costs include 4 other structures, costing:*

<i>Tower</i>	<i>\$450,000</i>
<i>Fencing</i>	<i>\$ 27,000</i>
<i>Access road</i>	<i>\$ 20,000</i>
<i>Drainage system</i>	<i>\$ 34,000</i>

## REAL PROPERTY CAPITALIZATION

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*The tower, fencing, and drainage system each meets the \$25,000 capitalization threshold, and each would be recorded separately in the detail property system for its respective value. They would also be posted into the general ledger as Other Structures:*

*DAFIS General Ledger A/C # 17EX Other Structures      \$ 511,000*

*The access road does not exceed the capitalization threshold, and its cost would be expensed.*

*DAFIS General Ledger A/C #61AA Expense                      \$ 20,000*

*The region has the option of whether or not to record the access road in the real property system (as an expensed item).*

c. Timing of Capitalization. Capitalize all eligible costs for other structures when the item is deemed either physically or substantially financially complete or placed in service (whichever occurs first). Capitalize any additional costs for the Other Structure, posted after the initial capitalization, at final capitalization.

**6. ASSETS UNDER CAPITAL LEASE.** See subsequent Volume 4, Chapter 21 of this guide, entitled “Accounting for Capital and Operating Leases” for guidance as to the identification and capitalization of assets under capital lease.

**7. LEASEHOLD IMPROVEMENTS.** See Volume 3, Chapter 13 of this guide, entitled “Accounting for Real Property Leasehold Improvements” for guidance as to the proper capitalization of leasehold improvements.

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# **CHAPTER 4**

  

## **DEPRECIATION OF REAL PROPERTY**

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# DEPRECIATION OF REAL PROPERTY

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## CHAPTER 4

**1. PURPOSE.** This section provides procedures for the depreciation of real property assets and the maintenance of related depreciation records for the Departmental Accounting Financial Information System (DAFIS) accounts. The current real estate management system does not have the capacity to compute depreciation, so the calculation is performed outside of the real estate management system.

**2. DEFINITIONS.**

a. Depreciation – This is the allocation of the cost of an asset over the period of time of its use.

b. Straight Line Depreciation – This is a method of calculating depreciation, which assumes the asset will lose an equal amount of value each year of its estimated useful life. The total recorded cost of the asset is divided by the number of years estimated for its useful life, and the resulting number is the depreciation expense for each established year of life.

*Example: An office building bought by FAA cost \$800,000. The useful life assigned for book purposes is 40 years, and there will be no salvage value. Straight-line depreciation is calculated as follows:*

*\$800,000 / 40 years = \$20,000 depreciation expense per year*

**3. RESPONSIBILITIES.**

a. The Office of Financial Services, Financial Systems Development Branch, AFM-320, will develop, maintain and revise, as needed, policies and procedures for real property depreciation. This office will calculate depreciation and provide the information to the region/center accounting offices for entry into DAFIS.

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## DEPRECIATION OF REAL PROPERTY

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b. The Office of Acquisitions, Real Estate Policy Branch, ASU-140, will implement, support and maintain identification of depreciation for real property assets as part of the real property management system. ASU-140 will provide AFM-320 with updated, timely real estate information which will be used to calculate depreciation.

c. The region/center accounting offices, will enter the real property depreciation transactions into DAFIS.

**4. DEPRECIATION CRITERIA.** The following criteria are applicable to the depreciation of capitalized real property:

a. Assets to be Depreciated. Land is not depreciated. Depreciation on other real property assets is calculated annually and recorded for depreciable capitalized assets of record (e.g., buildings and other structures), which are not fully depreciated as of the beginning of the current fiscal year. A September cutoff date will be established each year by AFM-320 to prepare the fiscal year closeout of real property depreciation entries in DAFIS.

This will enable the entries to be posted no later than the week after fiscal year end (DAFIS grace period). No depreciation expense will be recognized on an asset put in service during the fiscal year it is acquired. A full year's depreciation will be assessed during the asset's final year of use. The following identifies the date that should be considered in determining when an asset becomes eligible for depreciation:

1. Buildings – Occupancy date
2. Other Structures – Date placed into service

b. Computation. Depreciation will be computed by AFM-320 using the straight-line method.

c. Residual Value or Salvage Value. No residual values will be recognized for the FAA real property assets. Property will remain in

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## DEPRECIATION OF REAL PROPERTY

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the real estate management system as fully depreciated (valued at cost in DAFIS) until the real estate and accounting office transfers the asset to the DAFIS excess general ledger account, “17 CZ – Buildings Not In-Use” or “17EZ – Other Structures Not In-Use”, from the original asset account. After the expiration of the asset’s useful life, the FAA normally donates or transfers the asset to another government agency, such as the United States Coast Guard, to aid their missions. See this chapter, Section 6 – “Excess Real Property”, in this guide for additional information about excess real property.

d. Useful life. The following standards will be used in determining the useful life of the asset for the purpose of calculating depreciation:

<b><u>Useful Life Asset Classification (G/L Account)</u></b>	<b><u>(Years)</u></b>
Office Buildings, Warehouse Buildings (including Commercial and Government), Residential Properties, Air Traffic Control Towers, and En Route Air Traffic Control Centers	40
Mobile Homes	20
Capital Improvements, Facility Modifications, Communication Equipment, Leasehold Improvements (or expiration of lease, whichever comes first)	10
Original Roads, Sidewalks, Parking Lots, and All Other Structures	15

e. Betterment or Improvement to Capitalized Real Property.

The costs for a modification (betterment) or addition of an improvement to real property shall be capitalized when: (1) the total accumulated costs are at least \$25,000, and (2) either the useful life of the

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## DEPRECIATION OF REAL PROPERTY

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item is extended by at least 2 years, or the capacity of the asset to render service is increased by at least 2 years.

If the betterment or improvement does not meet the 2-year time criterion, or the accumulated costs of the betterment or improvement do not meet the \$25,000 threshold, the costs must be expensed. Each betterment or improvement should be evaluated for capitalization as a separate project from the original asset. This will allow for tracking of each modification's costs, distinguish those costs from the asset's original costs, and identify the useful life of the capitalized modification or improvement.

f. Real Property (Support) Records. The region's centralized folders will have details from the Capitalization Closeout Packages, which contain purchase orders, receiving reports, and other supporting information for the valuation of real property records in the real estate management system. Betterment and improvement files will be established separate to the file for the asset that was benefited. This will enable clear tracking of the improvement costs.

**5. DEPRECIATION PROCEDURES.** The Financial Systems Development Branch, AFM-320, will periodically use data extracted from real property systems to maintain a current file of depreciable real property. AFM-320 will use that information to calculate depreciation for the current year and any adjustments to accumulated depreciation for prior years. AFM-320 will provide the real property depreciation calculations to the region/center accounting offices for entry in DAFIS. The depreciation file will contain the following data for assets that cost at least \$25,000 (accumulated costs), with a useful life of at least 2 years:

- a. Region code
- b. Cost center
- c. Facility ID

## **DEPRECIATION OF REAL PROPERTY**

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- d. Dollar amounts (costs of asset)
- e. GSA address
- f. Job Order Number (JON)
- g. Date of acquisition
- h. Rehabilitation costs
- i. Date of last improvement
- j. Date of last inventory

Depreciation expense will be calculated and recorded in DAFIS annually in September for depreciable real property assets (e.g., buildings, other structures, etc.) which were commissioned or purchased in the previous fiscal years. Items purchased or put in service during the current fiscal year will not be depreciated until September of the next fiscal year.

The accounting entries will be prepared for the prior and current fiscal years and entered into DAFIS by region and cost center. The following transactions will be used to record the entries:

### **Entry to Record Adjustment of Prior Year Depreciation:**

**TC 437**

**MAC A5**

Depreciation Expense-Prior years	Debit (DR) 74 AX
Accumulated Depreciation	Credit (CR) 17 DX
	(Buildings)

## DEPRECIATION OF REAL PROPERTY

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### TC 437

MAC A6

Depreciation Expense-Prior years	Debit (DR) 74 AX
Accumulated Depreciation	Credit (CR) 17 FX
	(Other Structures)

This entry is made to record an adjustment to the prior fiscal year's depreciation expense.

### Entry to Record Current Year Depreciation:

### TC 476

MAC A2

OE-Depreciation Expense	Debit (DR) 61 AN
Accumulated Depreciation	Credit (CR) 17 DX
	(Buildings)

### TC 476

MAC A3

OE-Depreciation Expense	Debit (DR) 61 AN
Accumulated Depreciation	Credit (CR) 17 FX
	(Other Structures)

The current fiscal year entry records the current year's depreciation expense for depreciable real property.

The FAA Central Region's Logistics Management Service Center, ACE-50 (manager of the real estate management system), will transmit data received from all regions to the Real Estate Policy Branch, ASU-140, at FAA Headquarters. The data will be used to generate reports which support entries made to DAFIS. The following procedures are performed in conjunction with this activity:

## **DEPRECIATION OF REAL PROPERTY**

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(1) Verification of records in the real estate management system, AFM-320's records of depreciable real property and accumulated depreciation, and applicable DAFIS records will be periodically performed.

(2) There will be no retirement expense when an asset is taken out of service before expiration of its useful life. The asset's remaining book cost will be transferred to general ledger account "17 CZ - Building Not In-Use", and the related accumulated depreciation will be transferred to "17 DY - Accumulated Depreciation - Building Not In-Use" or "17EZ – Other Structure Not In-Use," and the related accumulated depreciation will be transferred to "17FY – Accumulated Depreciation – Other Structure Not In-Use." The asset will remain in DAFIS as capitalized real property until the official change of possession takes place.

**6. EXCESS REAL PROPERTY.** Documentation received from Oklahoma City evidencing reclassification of capitalized real property from an "in-use" to an "excess" status will be used as the basis for recording the value of excess property (see entry below) and will remain in the real estate management system. The related accumulated depreciation will be transferred to an offsetting accumulated depreciation account for excess real property. Entries to real property change in status are as follows:

### **TC 485**

MAC CZ

Buildings Not In-Use

Buildings – UNCLS.

Debit (DR) 17 CZ

Credit (CR) 17 CX

## **DEPRECIATION OF REAL PROPERTY**

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### **TC 485**

#### **MAC EZ**

Other Structures Not In-Use	Debit (DR) 17 EZ
Other Structures & Facilities -UNCLS	Credit (CR) 17 EX

This entry records the transfer to the Building/Other Structure Not In-Use inventory account while retaining the asset as an inventory item.

### **TC 375**

#### **MAC DY**

Accumulated Depreciation. - Buildings	Debit (DR) 17DX
Accumulated Depreciation	Credit (CR) 17DY
Buildings Not In-Use	

### **TC 375**

#### **MAC FY**

Accumulated Depreciation	Debit (DR) 17FX
Other Structures	
Accumulated Depreciation	Credit (CR) 17FY
Other Structures Not In-Use	

This entry records the transfer of the accumulated depreciation of an asset when the asset has been transferred to the Building/Other Structure not in-use account.

Excess property may be placed back into service. This occurs when the asset required meets the needs and is functional. In such cases, the asset will be given a new identified book value and life. The asset will be capitalized if the value is determined to be \$25,000 or more and the estimated life is at least 2 years; the asset will be expensed if it does not meet this criteria.



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## **CHAPTER 5**

# **PERSONAL PROPERTY CAPITALIZATION**

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# PERSONAL PROPERTY CAPITALIZATION

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## CHAPTER 5

1. **PURPOSE.** To establish accounting guidance for the proper identification and accounting treatment of personal property. Personal property assets are facility equipment that does not meet real property criteria.

2. **INSTALLED FACILITIES EQUIPMENT AND INSTALLATION COST CRITERIA.**

a. **Installed Facilities Equipment and Installation Charges.** *Installed Facilities Equipment* includes electronic, electrical, or mechanical equipment, installed at air traffic control and other air navigation facilities and other operating facilities in the National Airspace System. Its cost will include the cost of the equipment itself, together with any transportation charges to the installation site (if not already included in the purchase cost of the equipment). It will include the contract common cost and contractor support costs. *Installation Charges* include all labor, travel, other costs, and overhead costs incurred to place the equipment in service. Examples of “other costs” included within installation charges would be initial testing of the equipment and flight checking the equipment.

The costs under installed facilities equipment and installation charges do not include any normal resources required for operation and maintenance of the equipment after it is put into use (e.g., spare parts, repair costs, contractor maintenance, etc.). These costs are expensed as they occur.

b. **Unit of Capitalization.** Capitalize all eligible costs incurred for installed facilities equipment and installation costs if the total of these costs for a given facility installed at a region meets or exceeds \$25,000 and the equipment has an expected service life of two years or greater.

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## PERSONAL PROPERTY CAPITALIZATION

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*EXAMPLE: The FAA incurred these costs to construct an ASR-9 radar system:*

<u>Facility Equipment</u>	
Radar Dish	\$ 15,000
<u>Installation Charges</u>	
Labor - regionally incurred to install facility equipment	<u>\$ 15,000</u>
Total Cost	\$ 30,000

*The total cost of \$30,000 exceeds the \$25,000 capitalization threshold. Therefore, \$30,000 will be capitalized and recorded in DAFIS:*

*DAFIS General Ledger Account #17GP  
\$30,000*

*This asset would also be posted into the Personal Property In-use Management System (PPIMS).*

c. Timing of Capitalization. Capitalize eligible costs for installed facilities equipment and installation charges when the installation is complete and the item is ready for use. A useful milestone to trigger capitalization is the final Joint Acceptance/Inspection (JAI) clearing all major exceptions. At that moment, capitalize all eligible costs incurred to acquire or construct the asset (i.e., post to DAFIS GL account 17GP). If any additional costs are later identified for the initial construction of the equipment, capitalize these costs at final capitalization.

### **3. LINE ITEM ACCOUNTABLES CRITERIA.**

a. Line Item Accountables Cost. This category includes the cost of stand-alone equipment owned by the FAA and does not include

## PERSONAL PROPERTY CAPITALIZATION

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installed facilities equipment (as defined above). FAA Order 4650.21 (latest version), entitled “Management & Control of In Use Personal Property,” provides guidance as to what items constitute line item accountable items. Examples of line item accountable items include the following:

1. Audio visual equipment
2. Avionics equipment
3. Fire, rescue, and safety equipment
4. Information technology (computer) equipment
5. Laboratory and medical equipment
6. Maintenance and repair shop equipment
7. Office machines (including facsimile)
8. Portable or telecommunications equipment (i.e., telephones, beepers)
9. Portable test equipment
10. Training equipment
11. Vehicles, including tractors or off-road vehicles

See Chapter 2, Exhibit A, “Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets,” for a comprehensive list of costs eligible for capitalization.

b. Unit of Capitalization. Capitalize a line item accountable item if the cost of the separate item meets or exceeds \$25,000 and has an expected service life of two years or greater.

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## PERSONAL PROPERTY CAPITALIZATION

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*Example: The FAA incurred the following costs for line item accountable items:*

<i>Computer</i>	<i>\$ 10,000</i>
<i>Computer</i>	<i>\$ 15,000</i>
<i>Firearm</i>	<i>\$ 500</i>
<i>Printer</i>	<i>\$ 1,000</i>
<i>Fax</i>	<i>\$ 5,000</i>
<i>Truck</i>	<i>\$ 30,000</i>
<i>Beepers (150 units at \$250 each)</i>	<i><u>\$ 37,500</u></i>
<i>Total Cost</i>	<i>\$ 99,000</i>

*Each line item accountable item must be evaluated against the capitalization threshold separately. Therefore, only the truck is capitalized because its cost exceeds the \$25,000 capitalization threshold. Note: Although the total (aggregate) costs of all the beepers exceed the capitalization threshold, individually each does not. As Sensitive items, they are recorded separately within PPIMS. Therefore, the cost of each beeper (\$250, or in total \$37,500) is expensed.*

*The following amounts are recorded in the financial accounting system (DAFIS):*

<i>DAFIS General Ledger Account #17GP Personal Property</i>	
<i>\$ 30,000</i>	
<i>DAFIS General Ledger Account #61AA Expense</i>	<i><u>\$ 69,000</u></i>
<i>Total Cost</i>	<i>\$ 99,000</i>

c. Timing of Capitalization. Line item accountable items often are placed in service before their related system is closed out and capitalized. There also may be a need to establish accountability control over such items before project closeout. Therefore, such line item

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## PERSONAL PROPERTY CAPITALIZATION

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accountable items may be transferred to the in-use property system on a timely basis and considered for capitalization prior to the final project close-out. This is referred to as partial capitalization.

### **4. AIRCRAFT AND AIRCRAFT ENGINES CAPITALIZATION CRITERIA**

a. Aircraft and Aircraft Engines Cost. This category includes the cost for the FAA's fleet of aircraft (airframes) and for its supply of aircraft engines. Aircraft engines are recorded in separate asset records from the related aircraft because they have different expected service lives.

b. Unit of Capitalization. Capitalize all eligible costs incurred for an aircraft or aircraft engine if the total of these costs meet or exceeds \$25,000, and the airframe or engine has an expected service life of two years or greater.

c. Timing of Capitalization. Capitalize such costs at the time the airframe or engine is placed in service.

### **5. ADMINISTRATIVE INFORMATION SYSTEMS CAPITALIZATION CRITERIA.**

a. Administrative Information Systems Cost. This category includes the software costs for non-NAS information systems used by FAA personnel to perform their work. This category includes purchased software, internally-developed software, and contractor-developed software, as long as it is for internal (FAA) use (not for sale or licensing). Hardware costs would be considered for capitalization separately, as Line Item Accountable items. This is in accordance with the FASAB's Statement of Recommended Accounting Standards #10, entitled "Accounting for Internal Use Software". Examples of administrative information systems are:

## PERSONAL PROPERTY CAPITALIZATION

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1. Personal Property In-Use Management System (PPIMS)
2. Project Materiel Management System (PMMS)
3. Project Materiel Shipping & Receiving System (PMSRS)
4. Regional Project Materiel Management System (RPMMS)
5. Resource Tracking Program (RTP)
6. Cost Accounting System (CAS)

b. Unit of Capitalization. Capitalize all costs incurred to design and develop an administrative information system, if the total cost meets or exceeds \$25,000 and if the system has an expected service life of two years or greater. Such costs should be capitalized at the organizational level in which they are incurred. Costs incurred at FAA Headquarters for the acquisition of administrative information systems should be capitalized at that level.

*EXAMPLE: The FAA incurred the following costs for a cost accounting system:*

<i>Operating system COTS module</i>	<i>\$ 40,000</i>
<i>Cost accounting COTS module</i>	<i>\$100,000</i>
<i>Contractor labor incurred to design*, customize, implement, and test the system</i>	<i><u>\$500,000</u></i>
<i>Total Cost</i>	<i>\$640,000</i>

*All costs incurred to develop the administrative information system are applied to the capitalization threshold. Therefore, the \$640,000 total cost is capitalized because this amount exceeds \$25,000.*



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## PERSONAL PROPERTY CAPITALIZATION

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*Record the following amounts in the financial accounting system (DAFIS):*

*DAFIS General Ledger Account #17GP Personal Property      \$640,000*

*?? Design costs in this example were incurred after technological feasibility of the project had been determined. See Chapter 2, section 6c - "Technological Feasibility" for clarification of this topic.*

c. Timing of Capitalization. Capitalize the eligible costs for administrative information systems when the item is placed in use.

### **6. CONTRACT COMMON COSTS CAPITALIZATION CRITERIA.**

Contract common costs are capitalizable charges incurred for services, such as systems engineering or technical direction, which are directly related to a contract for procurement of NAS equipment. Such costs are common to the entire program and contract, but do not relate to a specific item of NAS equipment developed at a specific site. Examples of contract common costs will include the segments of a contract dealing with engineering costs, design costs, and costs associated with configuration management. The capitalized common costs will be distributed from headquarters to the regions by site for entry by the region's accounting office.

### **7. CONTRACTOR SUPPORT CAPITALIZATION CRITERIA.**

Contractor support costs are capitalizable charges incurred for contractual support services, such as systems engineering and technical direction, which are directly and solely related to a specific equipment acquisition program. Such costs are common to the entire program and are not incurred for a specific item of equipment delivered to a specific site. Contractor support costs do not include overhead costs, which may be incurred in support of several programs, and/or which may provide support functions not directly related to the acquisition of equipment under this program. For more details as to the accounting procedures for

## **PERSONAL PROPERTY CAPITALIZATION**

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contractor common costs and contractor support costs, see Volume 2, Chapter 10 of this guide, entitled “Identification, Accumulation, Capitalization and Disposition of Headquarters Contract Common Costs and Contractor Support Costs”. The capitalized contractor support costs will be distributed from headquarters to the regions by site for entry by the region’s accounting office.

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# **CHAPTER 6**

## **DEPRECIATION OF PERSONAL PROPERTY**

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# DEPRECIATION OF PERSONAL PROPERTY

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## CHAPTER 6

1. **PURPOSE.** This section prescribes procedures for the depreciation of Personal Property assets and the maintenance of related depreciation records in the Departmental Accounting Financial Information System (DAFIS) accounts. The Personal Property In-Use Management System (PPIMS) does not have the capacity to compute depreciation, so the calculation is performed outside of PPIMS.

2. **DEFINITIONS.**

a. Personal Property – This is any tangible property, except real property, an asset of the Federal Government.

b. Capitalized Personal Property – This is personal property which has a unit cost of at least \$25,000, continuing use as a self-contained unit, and a normal life expectancy of more than 2 years. In addition, capitalized personal property is not consumed in use, does not lose its identity when put into use, and does not ordinarily become a non-severable component of other property.

c. Capitalization – For purposes of financial accountability, capitalization is the classification of costs as a long-term investment (i.e., an asset) rather than an expense of current operations. The unit cost must be at least \$25,000, and the estimated useful life of the item must be at least 2 years for the costs to be classified as a capitalized asset.

d. Depreciation – This is the allocation of the cost of an asset over the period of time its use.

e. Straight Line Depreciation - This is the conservative method of calculating depreciation, which assumes the asset will lose an equal amount of value over each year of its estimated useful life. The total recorded cost of the asset is divided by the estimated number of years of useful life, and the resulting number identifies the depreciation expense for each expected year of service.

## DEPRECIATION OF PERSONAL PROPERTY

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*Example: The FAA bought an airplane at the cost of \$8,000,000. The estimated useful life assigned for accounting purposes is 10 years, and there will be no salvage value.*

*\$8,000,000 / 10 years = \$800,000 a year for depreciation expense*

### **3. RESPONSIBILITIES.**

a. The Office of Financial Management, Financial Systems Development Branch, AFM-320, will develop and maintain policies and procedures for depreciation. This office will use data from PPIMS to calculate current year depreciation on capitalized personal property and maintain a record of accumulated depreciation on those assets. AFM-320 will provide the operating accounting offices with information needed to record depreciation in DAFIS.

b. The National Airspace System (NAS) Logistics Property Management Division, AFZ-500, will support and maintain identification of depreciable personal property assets as part of the personal property system. AFZ-500 will provide AFM-320 with timely updates of personal property data by region and cost center.

c. The region, center, and headquarters operating accounting offices will record depreciation in DAFIS based on the information provided by AFM-320.

**4. DEPRECIATION CRITERIA.** The following criteria are applicable to the depreciation of capitalized personal property:

a. Personal Property Assets to be Depreciated. All tangible personal property assets that meet FAA capitalization criteria are subject to depreciation.

b. Computation. Depreciation shall be computed using the straight-line method for all personal property assets that meet

## DEPRECIATION OF PERSONAL PROPERTY

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capitalization criteria. AFM-320 will calculate the current fiscal year's depreciation expense and maintain records of accumulated depreciation for personal property. Depreciation expense is calculated and recorded annually for capitalized personal property assets of record, which were not fully depreciated as of the beginning of the fiscal year. Each year AFM-320 will designate a completion date in September for recording depreciation in DAFIS. No depreciation will be recognized on an asset in the fiscal year it is acquired. A full year's depreciation will be assessed during the asset's final year of use, even if it is in use for only part of the year.

c. Residual Value or Salvage Value. No residual values will be recognized for FAA Personal Property Assets. Property will remain in PPIMS fully depreciated (valued at cost in DAFIS) until the region transfers the asset from the original asset's general ledger account to the excess general ledger account, "17HM – Equipment Not in Use." After expiration of an asset's useful life, FAA normally will donate or transfer personal property to other government agencies, such as the United States Coast Guard, to aid in their missions.

d. Useful life. The table on the next page is for personal property line item assets recorded in the Personal Property In-Use Management System (PPIMS). This is property other than Facilities and Equipment (F&E).

**Table 1: Personal Property Line Item Useful Lives**

<u>PPIMS ASSET CLASS</u>	<u>DESCRIPTION</u>	<u>USEFUL LIFE</u>
11	<b>Office furniture</b> (including cabinets, lockers, couches), <b>office machines</b> (including typewriters, calculators, tape recorders, etc.), <b>misc. office equipment, furnishings, fixtures, and labor -saving devices.</b> <b>Excludes property classified as Automatic Data Processing Equipment.</b>	<b>7 years</b>
12	<b>Passenger vehicles</b> , general purpose, leased and owned	<b>5 years</b>

## DEPRECIATION OF PERSONAL PROPERTY

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**Table 1: Personal Property Line Item Useful Lives (cont'd)**

<b><u>PPIMS ASSET CLASS</u></b>	<b><u>DESCRIPTION</u></b>	<b><u>USEFUL LIFE</u></b>
<b>13</b>	<b>Printing, photographic, and projection equipment</b> (including duplicating, photocopy, printing and bookbinding machines, micro-graphics production equipment, microfiche/microfilm reader/printers, televisions, cameras, projection, developing and finishing equipment).	<b>13 years</b>
<b>17</b>	<b>Automatic data processing equipment</b> (including Central Processing Units, input/output terminals, storage, and printing devices, ADP accessory equipment, and related special furniture).	<b>5 years</b>
<b>20</b>	<b>Prototype and experimental equipment</b> used in research and development. <b>Excludes test equipment.</b>	<b>7 years</b>
<b>21</b>	<b>Research and Development Test Equipment</b>	<b>7 years</b>
<b>41</b>	<b>Special Purpose Vehicles</b> (including trucks, tractors, trailers, forklifts, cranes, snowplows, and any vehicle specially equipped).	<b>5 years</b>
<b>43</b>	<b>Shop equipment</b> , (including wood and metalworking machinery, industrial machinery, construction equipment, tool sets and kits, power hand tools, and related shop furniture).	<b>7 years</b>
<b>45</b>	<b>Equipment not otherwise classified</b>	<b>7 years</b>
<b>46</b>	<b>Emergency Readiness Equipment</b> , including Civil Defense equipment, security equipment and devices and all weapons/armaments.	<b>7 years</b>
<b>47</b>	<b>Training equipment</b> , including all type equipment that is specifically used for training purposes only.	<b>7 years</b>
<b>62</b>	<b>Portable test equipment for Air Navigation and Air Traffic Control facilities.</b>	<b>7 years</b>
<b>63</b>	<b>Rack mounted test equipment for Air Navigation and Air Traffic Control facilities.</b>	<b>7 years</b>
<b>64</b>	<b>Portable and installed communications equipment, excluding Air Navigation and Air Traffic Control Facilities</b> , including items identified as working equipment. Excludes communication test equipment.	<b>10 years</b>
<b>81</b>	<b>Aircraft</b> , electrical and mechanical equipment, including accessory equipment not otherwise classified. Excludes test equipment.	<b>20 years</b>
<b>82</b>	<b>Avionics equipment</b> , including communication and navigation equipment	<b>10 years</b>
<b>83</b>	<b>Aircraft test equipment</b> , portable and installed	<b>7 years</b>

**Note: The above table of personal property line items useful life was developed using The IRS Instructions for Form 4562 Depreciation and Amortization.**



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## DEPRECIATION OF PERSONAL PROPERTY

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The following table lists the Economic Service Lives (ESL) applied to capitalized Facilities and Equipment (F&E) and other personal property assets.

**Table 2: Economic Service Life Estimates**

Functional Area	Economic Service Life
<b>ADMINISTRATIVE SUPPORT SYSTEMS</b>	<b>USEFUL LIFE</b>
FAA Developed Hardware	20
FAA Developed Software	20
Mainframe Computers	10
Mini-Computers	10
High-End Workstations	10
PC Workstations/OATS Hardware	6
Computer Operating System	20
Displays	20
PC Workstation Application Software	4
<b>COMMUNICATIONS</b>	
General Purpose Telecomm. Equip.	10
Tower/TRACON Voice Switches	10
En Route Voice Switches	20
Air-Ground Radios	20
Microwave Network	10
<b>WEATHER</b>	
General Purpose Weather Sensors	15
Weather Radars (1)	20
Radar Transmitters	20
Radar Receivers	20
<b>NAVIGATION/LANDING</b>	
Electronic Navaids	20
Visual Navaids	20
<b>SURVEILLANCE</b>	
Radars(1)	20
Radar Transmitters	20
Radar Receivers	20
<b>FACILITIES</b>	
Facilities (2)	40
Support Equipment (e.g., chillers, heaters)	20
<b>MISSION SUPPORT</b>	
Aircraft	20

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## DEPRECIATION OF PERSONAL PROPERTY

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**Table 2: Economic Service Life Estimates (cont'd)**

Functional Area	Economic Service Life
<b>ADMINISTRATIVE SUPPORT SYSTEMS</b>	<b>USEFUL LIFE</b>
<b>USER EQUIPMENT</b>	
Commercial Aircraft Avionics	10
Military Aircraft Avionics	10
Business Aircraft Avionics	10
GA Low-end Aircraft Avionics	20

- (1) Generally this economic service life refers only to the custom-built hardware portions (e.g., antenna, pedestal mount, etc.) of radar equipment. Other portions (e.g., transmitters, receivers) will be COTS-based and have shorter ESL.
- (2) All FAA buildings and facilities (e.g., ARTCC, ATCT, TRACON, AFSS, etc.).

The above table will be used to identify asset classification lives for accounting record purposes. The useful lives assigned are the best available estimates for these groupings at this time. **Note - These table values are subject to change based on future comprehensive studies and data which may support more accurate useful lives of these assets.**

e. Improvements to Capitalized Personal Property. FY 2000 and Future Years' Criteria - The capitalization of an improvement or modification will commence when the improvement is considered physically complete, and/or the asset has been placed back into service, or has been deemed substantially financially complete (whichever occurs first). The improvement or modification will be depreciated over its assigned estimated life, providing the assigned estimated life is at least 2 years. This does not mean the improvement will extend the original asset's life; it means the improvement itself will have at least 2 years of estimated service life. If the assigned estimated life of the betterment or improvement is less than 2 years or it does cost at least \$25,000, then the costs must be expensed instead of capitalized. An improvement should be evaluated for capitalization as a separate project from the original

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## DEPRECIATION OF PERSONAL PROPERTY

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asset that it improves. This will allow the FAA to track the cost of each modification or improvement, distinguish between the asset's original and modification/improvement costs, and identify the modification's or improvement's capitalized useful life.

f. Personal Property (Support) Records – The region's centralized folders will retain the detail of the Capitalization Close Out Packages, that will contain documents, such as purchase orders and receiving reports, for all personal property in the PPIMS system. Improvement or modification files should be established separately from the asset benefited. This will enable clear tracking of the asset and the improvement costs.

**5. DEPRECIATION PROCEDURES.** The National Airspace System (NAS) Logistics Property Management Division, AFZ-500, has authorized AFM-320 to download data from its personal property database. AFM-320 uses that data to calculate depreciation for the current fiscal year and adjustments, if necessary, to accumulated depreciation from prior years. AFM-320 will also maintain an inventory record of capitalized assets and associated accumulated depreciation. Depreciation expense will be calculated by asset type for each region and center. Current year depreciation will be calculated by region and cost center for all capitalized assets that were acquired or commissioned on or before September 30 of the prior fiscal year. Assets that have exceeded their identified useful life are not subject to depreciation. Procedures include the following:

a. AFM-320 will transmit electronically to the managers of the region and center operating accounting offices, the depreciation entries to be entered into DAFIS and supporting information to be maintained in the files.

b. The operating accounting offices will enter the depreciation transactions into DAFIS. Batch and control files for the entries must be faxed to AFM-320 as supporting information. The depreciation entries

## DEPRECIATION OF PERSONAL PROPERTY

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will be furnished to cost accounting for use in the calculation of user fees.

c. Immediately after entry, region and center accounting offices will fax a copy of the DAFIS Batch Proof Listing of Transactions to AFM-320 as documentation for financial audit purposes.

d. AFM-320 will provide the Cost Accounting System (CAS) depreciation expense data. The data will be used by CAS in calculating user fees.

Beginning with FY 1999, depreciation expense will be calculated for personal property assets commissioned or purchased on or before September 30 of the prior fiscal year. No assets commissioned or purchased during the current fiscal year will be capitalized until the next fiscal year. Capitalization of assets commissioned or purchased at the end of September (after cutoff to calculate the update) will take place the following fiscal year. If the amount of depreciation not recorded is material, then AFM-320 will determine if a prior year adjustment will be made.

**The following transactions will be used to record the entries for the prior and current fiscal years.**

### **Entry to Record Prior Fiscal Year's Depreciation Expense:**

**TC 423**

MAC Code 10

Depreciation Expense – Prior Periods	Debit (DR) 74 AX
Accumulated Depreciation - Personal Property	Credit (CR) 17 JB

This entry is made to post prior period Accumulated Depreciation in DAFIS for all capitalized personal property which should have been

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## DEPRECIATION OF PERSONAL PROPERTY

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depreciated in a prior fiscal year (i.e., this is an adjustment to the depreciation expense recorded in a prior fiscal year).

### **Entry to Record Current Fiscal Year's Depreciation Expense:**

**TC 476**

MAC Code 10

Operating Expense - Depreciation Expense	Debit (DR)	61 AN
Accumulated Depreciation - Personal Property	Credit (CR)	17 JB

The current fiscal year's entry is made to identify current year depreciation expense (expired annual cost) for assets that were capitalized on or before September 30 of the prior fiscal year.

1. Verification of data in PPIMS and the depreciation entries for DAFIS will be performed.
2. There will be no retirement expense when an asset is taken out of service before expiration of its assigned useful life.

The asset's remaining book cost will be transferred to "Equipment Not In Use", general ledger account "17 HM"; and the related accumulated depreciation will be transferred to the "Accumulated Depreciation - Equipment Not In Use", general ledger account "17 JC". The asset will remain capitalized until official change of possession takes place.

**6. EXCESS PERSONAL PROPERTY.** Documentation received from Oklahoma City evidencing reclassification of capitalized Personal Property from "in-use" to an "excess" status will be used by AFM-310 as the basis for recording the value of excess property (see entry below) and will remain in PPIMS. The related accumulated depreciation will be transferred by the region/center accounting office to an offsetting accumulated depreciation account for excess real property. Entries to Excess Personal Property Assets:

## **DEPRECIATION OF PERSONAL PROPERTY**

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### **TC 485**

MAC Code 10

Equipment Not In Use

Equipment – Personal Property

Debit (DR) 17 HM

Credit (CR) 17 GP

This entry is to record the transfer to the excess (“Equipment Not In-Use - 17 HM”) account while retaining the asset as an inventory item.

### **TC 375**

MAC Code 10

Accumulated DEPR – Personal Property

Accumulated DEPR – Equipment Not In-Use

Debit (DR) 17 JB

Credit (CR) 17 JC

To transfer the accumulated depreciation of an asset when the asset is transferred to the equipment not in use account.

Excess property at times can be placed back into service. This occurs when the asset required meets the needs and is functional. The asset will be given a new identified book value and life to be capitalized if the asset value is determined to be at least \$25,000 and the asset’s useful life is determined to be at least 2 years. This would then affect the asset classification in DAFIS.